FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT DECEMBER 31, 2013



# TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis.	3-11
Government-wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Governmental Funds Balance Sheet	14
Reconciliation of the Governmental Funds Balance Sheet to the Government-wide	1.5
Statement of Net Position	15
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances	16-17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-wide Statement of Activities	18
Proprietary Funds Statement of Net Position.	19
Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position	20
Proprietary Funds Statement of Cash Flows	21
Notes to Financial Statements	22-37
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	38-39
Budgetary Comparison Schedule – Third Penny (Promotion) Fund	40
Budgetary Comparison Schedule – Bid District Fund	41
Notes to Required Supplementary Information	42
Other Reports:	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and	
Other Matters Based on an Audit of Financial Statements Performed in Accordance with  Government Auditing Standards	43-44
Auditor's Comments and Closing Conference	45-46



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#### INDEPENDENT AUDITOR'S REPORT

City Council
City of Custer
Custer, South Dakota

#### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the **CITY OF CUSTER** (the City), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### Other Matters - Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 11 and budgetary comparison information on pages 38 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 5, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

KETEL THORSTENSON, LLP Certified Public Accountants

Ketal Thoratown LLP

May 5, 2014

# MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2013

This section of the City of Custer (the City) annual financial report presents our discussion and analysis of the City's financial performance during the year ended December 31, 2013. Please read it in conjunction with the City's financial statements, which follow this section.

#### FINANCIAL HIGHLIGHTS

The City's net position from governmental and business-type activities increased by \$124,091, primarily due to an increase in tax revenue.

During the year, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$3,178,800, and the governmental program expenditures were \$2,980,917.

The City's proprietary funds' expenses exceeded revenues by \$73,792 primarily due to the sale of fixed assets which were not fully depreciated.

The general fund reported a \$266,075 current year increase due to a decrease in capital outlay expenditures from the prior year.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

The financial report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement 34.

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, including related notes, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

The governmental funds statements tell how general government services, like public safety, were financed in the short-term, as well as what remains for future spending.

Proprietary fund statements offer short- and long-term financial information about the activities that the City operates like businesses. The City has three proprietary funds – the Water Fund, the Sewer Fund, and the Solid Waste Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2013

## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

	Government-wide	Fund St	atements
Scope	Statements Entire City government (except fiduciary funds)	Governmental Funds The activities of the City that are not proprietary or fiduciary, such as finance office, police, fire and parks	Proprietary Funds Activities the City operates similar to private businesses, the water and sewer systems
Required Financial Statements	Statement of Net Position and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/ Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of Inflow/ Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2013

#### OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

#### Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Net position – the difference between the City's assets and liabilities – are one way to measure the City's financial health.

Increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the City, you need to consider additional non-financial factors, such as changes in the City's property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the City are reported in two categories:

Governmental Activities -- This category includes most of the City's basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state grants and interest earnings finance most of these activities.

Business-type Activities -- The City charges a fee to customers to help cover the costs of certain services it provides. The City's water, sewer, and solid waste program are included here.

### Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

State law requires some of the funds. The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has two kinds of funds:

Governmental Funds – Most of the City's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at the end of the year that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.

Proprietary Funds – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The City's proprietary funds are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2013

# FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

## Net Position

The City's combined net position increased by 0.70 percent between 2012 and 2013 – increasing by \$124,091.

Table A-1

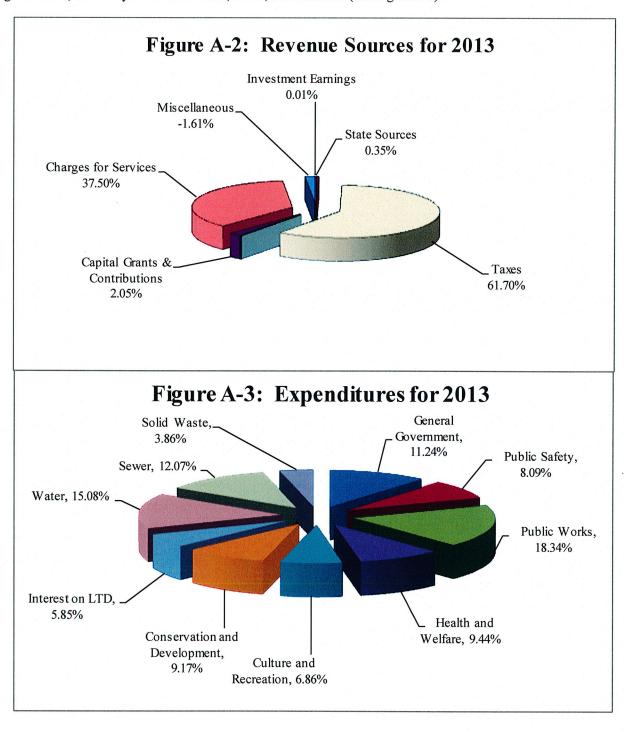
Table A-I									
			Statement o	f Net Position					
	Gover	nme	ental	Busine					
	Acti	iviti	es	Acti	vit	ies	To	ta	<u> </u>
	2012		2013	2012		2013	2012		2013
Current & Other Assets	\$ 2,147,467	\$	2,367,287	\$ 2,450,760	\$	2,742,613	\$ 4,598,227	\$	5,109,900
Capital Assets	9,135,891		9,140,635	10,931,594		10,534,889	20,067,485		19,675,524
Total Assets	\$11,283,358	\$	11,507,922	\$13,382,354	\$	13,277,502	\$24,665,712	\$	24,785,424
Long-Term Debt	\$ 3,760,109	\$	4,241,871	\$ 2,520,633	\$	2,497,593	\$ 6,280,742	\$	6,739,464
Other Liabilities	500,249		45,168	57,706		49,686	557,955		94,854
Total Liabilities	\$ 4,260,358	\$	4,287,039	\$ 2,578,339	\$	2,547,279	\$ 6,838,697	\$	6,834,318
Net Position:									
Net Investment in									
Capital Assets	\$ 5,424,236	\$	4,954,150	\$ 8,467,770	\$	8,097,032	\$13,892,006	\$	13,051,182
Restricted	191,495		174,204	106,920		106,920	298,415		281,124
Unrestricted	1,407,269		2,092,529	2,229,325		2,526,271	3,636,594		4,618,800
Total Net Position	\$ 7,023,000	\$	7,220,883	\$10,804,015	\$	10,730,223	\$17,827,015	\$	17,951,106
Beginning Net Position	\$ 6,764,876	\$	7,023,000	\$10,784,683	\$	10,804,015	\$17,549,559	\$	17,827,015
Change in Net Position	258,124		197,883	19,332		(73,792)	277,456		124,091
Percentage of Change									
Net Position	3.82%		2.82%	0.18%		-0.68%	1.58%		0.70%

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the City have been reported in this manner on the Statement of Net Position. The difference between the City's assets and liabilities is its net position.

# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2013

## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

<u>Changes in Net Position</u> The City's revenues totaled \$4,444,693. See Figure A-2 below. The total revenue increased while the expenditures increased. The City's expenses cover a range of services, including public works, general government, and utility services for water, sewer, and sanitation (See Figure A-3).



# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2013

# FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

Table A-2

	Gover	otal nmental ivities	Busine Acti	otal ss-Type ivities	Grand Total		
	2012	2013	2012	2013	2012	2013	
Revenues							
Program Revenues							
Charges for Services	\$ 350,134	\$ 340,476	\$ 1,228,341	\$ 1,326,385	\$ 1,578,475	\$ 1,666,861	
Capital Grants and Contributions	51,302	55,420	17,503	35,482	68,805	90,902	
General Revenues							
Taxes	2,669,422	2,742,517	-	-	2,669,422	2,742,517	
Revenue State Sources	14,611	15,711	-	-	14,611	15,711	
Unrestricted Investment Earnings	26,210	(1,098)	28,788	1,480	54,998	382	
Other	33,618	25,774	22,785	(97,454)	56,403	(71,680)	
Total Revenues	\$ 3,145,297	\$ 3,178,800	\$ 1,297,417	\$ 1,265,893	\$ 4,442,714	\$ 4,444,693	
Expenses							
General Government	\$ 480,271	\$ 485,477	\$ -	\$ -	\$ 480,271	\$ 485,477	
Public Safety	356,879	349,651	-	-	356,879	349,651	
Public Works	692,870	792,234	-	-	692,870	792,234	
Health and Welfare	408,338	407,913	-	-	408,338	407,913	
Culture and Recreation	299,325	296,377	-	-	299,325	296,377	
Conservation and Development	382,507	396,386	-	-	382,507	396,386	
Interest on Long-Term Debt	266,983	252,879	-	-	266,983	252,879	
Water Services	-	-	632,387	651,353	632,387	651,353	
Sewer Services	-	-	485,165	521,696	485,165	521,696	
Solid Waste		*	160,533	166,636	160,533	166,636	
Total Expenses	\$ 2,887,173	\$ 2,980,917	\$ 1,278,085	\$ 1,339,685	\$ 4,165,258	\$ 4,320,602	
	Φ 050 10 1	A 107 003	Ф. 10.222	ф ( <b>73 703</b> )	¢ 277.457	e 124.001	
Increase (Decrease) in Net Position	\$ 258,124	\$ 197,883	\$ 19,332	\$ (73,792)	\$ 277,456	\$ 124,091	
Net Position - Ending	\$ 7,023,000	\$ 7,220,883	\$ 10,804,015	\$ 10,730,223	\$ 17,827,015	\$ 17,951,106	

# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2013

#### FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)

## **Governmental Activities**

Revenue of the City's governmental activities exceeded expenses by \$197,883. Factors contributing to these results included:

- An increase in sales tax revenue.
- Expenditures below budgeted amount due to delayed capital projects and lower than projected costs.

#### **Business-Type Activities**

Expenses of the City's business-type activities exceeded revenues by \$73,792. The factor contributing to these results was the sale of fixed assets which were not fully depreciated.

#### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The financial analysis of the City's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City maintains several governmental funds and three business-type funds.

#### GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the City budget one time. The amendment increased appropriations by contingency transfer to prevent budget overruns.

The budget variance was due to swimming pool utilities exceeding budgeted amounts.

# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2013

#### CAPITAL ASSET ADMINISTRATION

By the end of 2013, the City had invested \$19,675,524 in a broad range of capital assets, including land, buildings, various machinery and equipment. (See Table A-3.) This amount represents a net decrease (including additions and deductions) of \$391,961. Additions consist primarily of improvements to South Fourth Street and Montgomery Street, Big Rock Trail extension, sidewalk, curb/gutter replacement, aerator replacement, and wastewater treatment plant pump.

Table A-3

	Cap	ital Assets (N	let o	f Depreciatio	on)		
		Gover Acti	nme ivitie			Busin Acti	• •
		2012		2013		2012	2013
Land	\$	1,070,706	\$	1,070,706	\$	568,035	\$ 568,035
Buildings		1,469,121		1,509,438		467,859	672,940
Improvements		5,955,059		5,658,439		8,945,442	8,644,353
Machinery & Equipment		514,778		454,307		531,930	583,257
Construction Work in Progress		126,227		447,745		418,328	66,304
Total	\$	9,135,891	\$	9,140,635	\$	10,931,594	\$ 10,534,889

#### LONG-TERM DEBT

Table A-4

	О	utstanding l	Debt	and Obligati	ons		
		Gove Ac	rnme tiviti			Busine Acti	• •
		2012		2013		2012	 2013
Compensated Absences	\$	48,454	\$	55,386	\$	56,809	\$ 59,736
TIF #1 - Boothill		665,465		665,465		-	-
Accrued Interest - TIF #1		-		58,106		-	-
TIF #2 - Stonehill		1,569,901		1,569,901		-	-
Accrued Interest - TIF #2		-		491,361		-	-
TIF #4 - Downtown		1,136,742		1,085,165		. <del>-</del> 1	-
TIF #5 - Pamida		339,547		316,487		-	-
Water Revenue Bonds		-		-	2	2,463,824	2,398,529
Sewer Revenue Bonds		. <del>-</del>		-		-	 39,328
Total	\$	3,760,109	\$	4,241,871	\$ 2	2,520,633	\$ 2,497,593

The City made payments on prior long-term debt and borrowed on the 2012 sewer revenue bonds.

# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED) DECEMBER 31, 2013

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's current economic position has shown continued improvement. The City did experience a decrease in total property valuation of \$1,763,754, down 1.40 percent from the prior year. However, the decrease in property valuation was offset by an increase in growth and Consumer Price Index (CPI), thus increasing total property tax revenue by approximately \$20,000. Under the state-mandated property tax freeze, property taxes from one year to the next may increase three percent or an amount based on the CPI, whichever is lower.

One of the primary sources of revenue to the City is based on taxable retail sales in the community (sales tax). The City has experienced an increase in sales tax of 3.40 percent over the prior year and has budgeted for a \$178,577 decrease in sales tax revenue from the 2013 actual for the next year.

The City's adopted General Fund budget for the next fiscal year will decrease to \$3,206,294. The largest portion of this decrease is due to the hospital sales tax subsidy being reduced by 13%.

The City's adopted business-type budget for the next fiscal year will decrease to \$1,936,900. This decrease is due to capital improvement expenditures being reduced. However, a supplemental budget will have to be done as the sewer line replacement project was completed in 2014, rather than in 2013 as originally scheduled.

#### CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Custer Finance Office, 622 Crook Street, Custer, SD 57730.

CITY OF CUSTER

# STATEMENT OF NET POSITION DECEMBER 31, 2013

		/ERNMENTAI ACTIVITIES		SINESS-TYPE ACTIVITIES	TOTAL
Assets:		CHVIIIES		CHVIILD	 TOTAL
Cash and Investments (Note 2)	\$	2,136,493	\$	2,481,790	\$ 4,618,283
Restricted Investments (Notes 3 and 7)	•	-		106,920	106,920
Receivables		205,740		153,903	359,643
Other Assets (Note 9)		25,054		-	25,054
Capital Assets (Note 6):		,			
Land and Construction in Progress		1,518,451		634,339	2,152,790
Other Capital Assets, Net of Depreciation		7,622,184		9,900,550	17,522,734
TOTAL ASSETS	\$	11,507,922	\$	13,277,502	\$ 24,785,424
Liabilities:					
Accounts Payable	\$	32,464	\$	20,678	\$ 53,142
Other Current Liabilities		12,704		29,008	41,712
Long-Term Liabilities (Note 7):					
Due Within One Year		234,639		127,253	361,892
Due in More Than One Year		4,007,232		2,370,340	 6,377,572
TOTAL LIABILITIES		4,287,039		2,547,279	 6,834,318
Net Position:					
Net Investment in Capital Assets		4,954,150		8,097,032	13,051,182
Restricted for:		4,754,150		0,007,002	10,001,102
Debt Service		456		106,920	107,376
BID		88,088		-	88,088
SDPAA (Note 9)		13,654		-	13,654
Permanently Restricted Purposes:		15,55			,
Expendable		22,006		_	22,006
Nonexpendable		50,000		_	50,000
Unrestricted		2,092,529		2,526,271	4,618,800
TOTAL NET POSITION		7,220,883		10,730,223	 17,951,106
A O KIAND I NO K I O O K K O I I		. , ,	<del>-</del>		 
TOTAL LIABILITIES AND NET POSITION	\$	11,507,922	\$	13,277,502	\$ 24,785,424

The accompanying notes are an integral part of the financial statements.

CITY OF CUSTER

# STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2013

Net (Expense) Revenue and - - - Program Revenues - - ------ Changes in Net Position -----Capital Grants and Governmental Business-Type Charges for Services Contributions Activities Activities Total Functions/Programs Expenses Primary Government Governmental Activities: (426,946)(426,946)General Government 485,477 58,531 349,651 2,964 (346,687)(346,687)Public Safety 94,819 55,420 (641,995)(641,995)792,234 Public Works (407,913)407,913 (407,913)Health and Welfare 296,377 13,892 (282,485)(282,485)Culture and Recreation Conservation and (396, 386)(396,386)396,386 Development Miscellaneous 170,270 170,270 170,270 (252,879)(252,879)Interest on Long-Term Debt 252,879 55,420 (2,585,021) (2,585,021) 2,980,917 340,476 **Total Governmental Activities** Business-Type Activities: 2,813 Water 651,353 618,684 35,482 2,813 16,973 16,973 538,669 Sewer 521,696 169,032 2,396 2,396 Solid Waste 166,636 1,339,685 1,326,385 35,482 22,182 22,182 Total Business-Type Activities **Total Primary Government** 4,320,602 1,666,861 90,902 (2,585,021)22,182 (2,562,839)General Revenues (Expenses): Taxes: 1,051,326 1,051,326 Property Taxes 1,691,191 1,691,191 Sales Taxes 15,711 15,711 State Shared Revenue 382 1,480 Unrestricted Investment Earnings (Loss) (1,098)Miscellaneous Revenue (Expense) 25,774 (97,454)(71,680)2,782,904 (95,974)2,686,930 Total General Revenue (Expense) 197,883 (73,792)124,091 Change in Net Position Net Position, Beginning 7,023,000 10,804,015 17,827,015 7,220,883 10,730,223 17,951,106 Net Position, Ending

# BALANCE SHEET GOVERNMENTAL FUNDS DECEMBER 31, 2013

		General Fund	(Р	Third Penny romotion) Fund	•	BID Fund
Assets						
101 Cash and Cash Equivalents (Note 2)	\$	794,952	\$	1,818	\$	86,896
105 Investments (Note 2)		1,177,935		2,952		-
108 Property Taxes Receivable - Delinquent		46,889		-		-
110 Sales Taxes Receivable		107,822		5,768		-
115 Accounts Receivable		34,198		-		1,192
131 Due from Promotion Fund (Note 10)		30,000		-		-
132 Due from Other Governments		9,330		-		-
135 Interest Receivable		19	-	-		-
154.1 Restricted Deposits (Note 9)		13,654		-		-
155 Prepaid Expenses		11,400		<b></b>		-
Total Assets	\$	2,226,199	\$	10,538	\$	88,088
Liabilities, Deferred Inflows of Resources and Fund Balances						
Liabilities	Ф	17 926	Ф	14 620	¢	
202 Accounts Payable	\$	17,826	\$	14,638	\$	-
208 Due to General Fund (Note 10)		7217		30,000		-
216 Accrued Wages Payable		7,317		-		-
220 Customer Deposits		500		44.629		
Total Liabilities		25,643		44,638		
Defermed Inflorer of Personness (Nieto A)						
Deferred Inflows of Resources (Note 4)		20.617				
245 Unavailable Revenue - Property Taxes		20,517		-		-
247 Unavailable Revenue - Federal Grants		9,330		<del></del>		<del>-</del>
Total Deferred Inflows of Resources		29,847		<del>-</del>		-
Fund Balances						
263 Nonspendable:						
263.51 Perpetual Care Cemetery		-		-		-
263.02 Prepaid Expenses		11,400		-		-
263.49 SDPAA Reserve (Note 9)		13,654		-		-
264 Restricted:						
264.01 Debt Service		_		-		-
264.03 Perpetual Care Cemetery		_		-		-
264.09 Business Improvement District		• -		_		88,088
265 Committed:						,
265.99 Capital Reserve Fund		250,000		-		_
266 Assigned:						
266.01 Subsequent Year's Budget		232,489		_		_
267 Unassigned		1,663,166		(34,100)		_
Total Fund Balances		2,170,709		(34,100)	<del></del>	88,088
LULAI PUNU DAIANCES		2,110,109		(34,100)		00,000
Total Liabilities, Deferred Inflows of						
Resources and Fund Balances	\$	2,226,199	\$	10,538	\$	88,088

Debt	TIF Service Fund		Cemetery Perpetual Care Fund	G	Total overnmental Funds
\$	-	\$	8,140	\$	891,806
	-		63,800		1,244,687
	-		-		46,889
	-		-		113,590
	456		-		35,846
	-		=		30,000
	-		-		9,330
	-		66		85
	-		-		13,654
	-		-		11,400
\$	456	\$	72,006	\$	2,397,287
				_	/
\$	-	\$	-	\$	32,464
	-		-		30,000
	-		-		7,317
	<u>-</u>		<del>-</del>		500
					70,281
	_		_		20,517
	-		_		9,330
	-		_		29,847
			50,000		50,000
	-		30,000		11,400
	-		_		13,654
	<u>-</u>		-		
	456		_		456
	-		22,006		22,006
	-		-		88,088
	-		-		250,000
	-		-		232,489
	-		-		1,629,066
	456	<del></del>	72,006		2,297,159
				Φ.	
\$	456	\$	72,006	\$	2,397,287

# RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION DECEMBER 31, 2013

Total Net Position - Governmental Funds	\$ 7,220,883
Assets such as delinquent taxes receivable and grants receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	29,847
Accrued interest is not due and payable in the current period and therefore is not reported in the funds.	(4,887)
Long-term liabilities are not due and payable in the current period and therefore not reported in the funds.	(4,241,871)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	9,140,635
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Total Fund Balances - Governmental Funds	\$ 2,297,159

CITY OF CUSTER

# STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2013

		General Fund	Third Penny (Promotion) Fund	BID Fund	TIF Debt Service Fund
Revenue					
	Taxes:				
311	General Property Taxes	\$ 803,045	\$ -	\$ -	\$ 250,319
313	General Sales and Use Taxes	1,347,147	202,700	141,344	-
315	Amusement Taxes	636	~	-	-
319	Penalties and Interest on Delinquent Taxes	4,599	-	-	-
320	Licenses and Permits	51,103	-	-	-
	State Shared Revenue:				
335.01	Bank Franchise Tax	2,698	-	-	-
335.03	Liquor Tax Reversion	13,013	-	-	-
335.04	Motor Vehicle Licenses (5%)	25,759	-	-	-
335.08	Local Government Highway and Bridge Fund	29,658	-	-	<u>.</u>
	County Shared Revenue:				
338.02	County HBR Tax	31,002	-	-	<u>.</u>
	Charges for Goods and Services:				
341	General Government	7,428	-	<del>-</del>	-
346	Culture and Recreation	13,892	~	-	-
348	Cemeteries	4,200	_	-	-
350	Fines and Forfeits	2,964		-	-
	Miscellaneous Revenue:				
361	Earnings (Loss) on Deposits and Investments	(2,134)	202	-	_
362	Rentals	12,214	-	-	_
368	Liquor Operating Agreement Income	170,270	-	-	-
369	Other	13,560	_	-	-
Total Re	venue	2,531,054	202,902	141,344	250,319

Cemetery	Total
Perpetual Care	Governmental
Fund	Funds
\$ -	\$ 1,053,364
-	1,691,191
-	636
-	4,599
-	51,103
-	2,698
_	13,013
_	25,759
-	29,658
-	31,002
-	7,428
_	13,892
4,200	8,400
~	2,964
834	(1,098)
-	12,214
_	170,270
_	13,560
5,034	3,130,653

CITY OF CUSTER

# STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED) GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2013

		Third Penny		TIF
	General	(Promotion)	BID	Debt Service
	Fund	Fund	Fund	Fund
Expenditures				
General Government:				
411 Legislative	77,526	-	-	-
413 Elections	31	-	-	-
414 Financial Administration	127,755	-	-	-
419 Other	218,166	-	-	-
Public Safety:				
421 Police	349,651	-	-	
Public Works:				
431 Highways and Streets	432,406	-	-	-
437 Cemeteries	26,436	~	-	-
Health and Welfare:				
444 Humane Society	7,913	-	-	-
447 Hospitals, Nursing Homes and Rest Homes	400,000	~	-	-
Culture and Recreation:				
451 Custer Cruisin'	11,928	-	-	-
451 Swimming	46,899	-	-	-
452 Parks	121,759	-	-	-
Conservation and Development:				
465 Economic Development and Assistance	92,500	171,629	132,257	-
470 Debt Service	-	-	-	249,863
485 Capital Outlay	352,009	110,895	-	-
Total Expenditures	2,264,979	282,524	132,257	249,863
<del></del>				
Net Change in Fund Balances	266,075	(79,622)	9,087	456
Fund Balances - December 31, 2012	1,904,634	45,522	79,001	-
Fund Balances - December 31, 2013	\$ 2,170,709	\$ (34,100)	\$ 88,088	\$ 456

Perpetual Care Funds         Governmental Funds           -         77,526           -         31           -         127,755           -         218,166           -         349,651           -         432,406           -         26,436           -         7,913           -         400,000           -         11,928           -         46,899           -         121,759           -         396,386           -         249,863           -         2,929,623           5,034         201,030           66,972         2,096,129           \$ 72,006         \$ 2,297,159	Cemetery	Total
- 77,526 - 31 - 127,755 - 218,166 - 349,651 - 432,406 - 26,436 - 7,913 - 400,000 - 11,928 - 46,899 - 121,759 - 396,386 - 249,863 - 462,904 - 2,929,623 - 5,034 201,030 - 66,972 2,096,129	Perpetual Care	Governmental
- 31 - 127,755 - 218,166 - 349,651 - 432,406 - 26,436 - 7,913 - 400,000 - 11,928 - 46,899 - 121,759 - 396,386 - 249,863 - 462,904 - 2,929,623 - 5,034 201,030 - 66,972 2,096,129		
- 31 - 127,755 - 218,166 - 349,651 - 432,406 - 26,436 - 7,913 - 400,000 - 11,928 - 46,899 - 121,759 - 396,386 - 249,863 - 462,904 - 2,929,623 - 5,034 201,030 - 66,972 2,096,129		
- 31 - 127,755 - 218,166 - 349,651 - 432,406 - 26,436 - 7,913 - 400,000 - 11,928 - 46,899 - 121,759 - 396,386 - 249,863 - 462,904 - 2,929,623 - 5,034 201,030 - 66,972 2,096,129		
- 127,755 - 218,166  - 349,651  - 432,406 - 26,436  - 7,913 - 400,000  - 11,928 - 46,899 - 121,759  - 396,386 - 249,863 - 462,904 - 2,929,623  5,034 201,030  66,972 2,096,129	_	77,526
- 218,166 - 349,651 - 432,406 - 26,436 - 7,913 - 400,000 - 11,928 - 46,899 - 121,759 - 396,386 - 249,863 - 462,904 - 2,929,623 - 5,034 201,030 - 66,972 2,096,129	-	31
- 349,651  - 432,406 - 26,436  - 7,913 - 400,000  - 11,928 - 46,899 - 121,759  - 396,386 - 249,863 - 462,904 - 2,929,623  5,034 201,030  66,972 2,096,129	-	127,755
- 432,406 - 26,436  - 7,913 - 400,000  - 11,928 - 46,899 - 121,759  - 396,386 - 249,863 - 462,904 - 2,929,623  5,034 201,030  66,972 2,096,129	-	218,166
- 432,406 - 26,436  - 7,913 - 400,000  - 11,928 - 46,899 - 121,759  - 396,386 - 249,863 - 462,904 - 2,929,623  5,034 201,030  66,972 2,096,129		
- 26,436  - 7,913 - 400,000  - 11,928 - 46,899 - 121,759  - 396,386 - 249,863 - 462,904 - 2,929,623  5,034 201,030  66,972 2,096,129	-	349,651
- 26,436  - 7,913 - 400,000  - 11,928 - 46,899 - 121,759  - 396,386 - 249,863 - 462,904 - 2,929,623  5,034 201,030  66,972 2,096,129		
- 7,913 - 400,000  - 11,928 - 46,899 - 121,759  - 396,386 - 249,863 - 462,904 - 2,929,623  5,034 201,030  66,972 2,096,129	-	
- 400,000  - 11,928 - 46,899 - 121,759  - 396,386 - 249,863 - 462,904 - 2,929,623  5,034 201,030  66,972 2,096,129	-	26,436
- 400,000  - 11,928 - 46,899 - 121,759  - 396,386 - 249,863 - 462,904 - 2,929,623  5,034 201,030  66,972 2,096,129		7.012
- 11,928 - 46,899 - 121,759 - 396,386 - 249,863 - 462,904 - 2,929,623 - 5,034 201,030 - 66,972 2,096,129	-	•
- 46,899 - 121,759  - 396,386 - 249,863 - 462,904 - 2,929,623  5,034 201,030  66,972 2,096,129	-	400,000
- 46,899 - 121,759  - 396,386 - 249,863 - 462,904 - 2,929,623  5,034 201,030  66,972 2,096,129		11 028
- 121,759  - 396,386 - 249,863 - 462,904 - 2,929,623  5,034 201,030  66,972 2,096,129	-	
- 396,386 - 249,863 - 462,904 - 2,929,623 5,034 201,030 66,972 2,096,129	<u>-</u>	
- 249,863 - 462,904 - 2,929,623 5,034 201,030 66,972 2,096,129	-	121,739
- 249,863 - 462,904 - 2,929,623 5,034 201,030 66,972 2,096,129	_	396,386
- 462,904 - 2,929,623 5,034 201,030 66,972 2,096,129	_	•
-     2,929,623       5,034     201,030       66,972     2,096,129	_	•
5,034 201,030 66,972 2,096,129		
66,972 2,096,129		
	5,034	201,030
	-	
\$ 72,006 \$ 2,297,159	66,972	2,096,129
\$ 72,006 \$ 2,297,159		0.005.150
	\$ 72,006	\$ 2,297,159

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# RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2013

Change in Net Position of Governmental Activities	\$ 197,883
expenditures.	 (6,932)
Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through	(6.020)
Accrued interest expense, excluding TIFs #1 and #2, reported in the Statement of Activities does not require the use of current financial resources and therefore is not reported as expenditures in governmental funds.	(83)
Increases to the interest accrual on TIFs #1 and #2 does not require the use of current financial resources and therefore is not reported as expenditures in governmental funds.	(173,855)
Payment of principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the Statement of Net Position.	170,922
Governmental funds report grants receivable as revenue when available, but the Statement of Activities includes grants receivable as revenue upon completion of the project at the point when an enforceable legal claim arises.	9,330
The governmental fund financial statement property tax accruals differ from the government-wide statement property tax accruals in that the fund financial statements require the amounts to be "available."	(7,273)
Governmental funds reflect proceeds from capital asset sales, if any, while the Statement of Activities reports a loss on sale or disposal of capital assets.	(32,812)
Capital assets contributed to the City, which are included in the Statement of Activities.	46,090
Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated lives and reported as depreciation expense.  Capital Asset Purchases Capitalized  Depreciation Expense	462,904 (471,438)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Net Change in Fund Balances - Total Government Funds	\$ 201,030

CITY OF CUSTER
STATEMENT OF NET POSITION
PROPRIETARY FUNDS

**DECEMBER 31, 2013** 

	Water Fund	Sewer Fund		Solid Waste Fund	Total Proprietary Funds
Assets					
Current Assets	A 1 0 40 610	<b></b>	Φ.		# 1.51 <b>0.</b> 704
101 Cash and Cash Equivalents (Note 2)	\$ 1,040,618	\$ 416,218	\$	55,958	\$ 1,512,794
105 Investments (Note 2)	184,144	780,841		4,011	968,996
115 Accounts Receivable, Net	59,749	69,385		24,735	153,869
135 Interest Receivable	1,284,532	1,266,457		84,704	2,635,693
Total Current Assets	1,204,332	1,200,437		64,704	2,033,093
Noncurrent Assets					
107 Restricted Investments (Note 3)	106,920	-		-	106,920
Capital Assets (Note 6)					
160 Land	46,262	521,773		-	568,035
162 Buildings	926,269	546,755		-	1,473,024
163 Accumulated Depreciation (AD) - Buildings	(492,459)	(307,625)		-	(800,084)
164 Improvements Other Than Buildings	7,876,053	5,218,020		-	13,094,073
165 AD - Improvements Other Than Buildings	(2,349,185)	(2,100,535)		-	(4,449,720)
166 Machinery and Equipment	365,740	1,061,782		-	1,427,522
167 AD - Machinery and Equipment	(307,561)	(536,704)		-	(844,265)
168 Construction Work in Progress		66,304		-	66,304
Total Noncurrent Assets	6,172,039	4,469,770		<u>-</u>	10,641,809
Total Assets	\$ 7,456,571	\$ 5,736,227	\$	84,704	\$ 13,277,502
Liabilities and Net Position					
Current Liabilities					
202 Accounts Payable	\$ 1,691	\$ 18,127	\$	860	\$ 20,678
205 Current Portion of Long-Term Debt (Note 7)	67,517	, -		-	67,517
215 Accrued Interest Payable	4,845	1,088		_	5,933
216 Accrued Wages	1,090	1,150		-	2,240
220 Customer Deposits	20,835	-		_	20,835
233 Accrued Leave Payable (Note 7)	29,370	30,366		-	59,736
Total Current Liabilities	125,348	50,731		860	176,939
Y 70 V to billidian					
Long-Term Liabilities 237 Long-Term Debt, Net of Current Portion (Note 7)	2,331,012	39,328		_	2,370,340
Total Liabilities	2,456,360	90,059		860	2,547,279
Not Desition					
Net Position 253.1 Net Investment in Capital Assets	3,666,590	4,430,442		_	8,097,032
253.1 Net investment in Capital Assets 253.21 Restricted for Debt Service	106,920	7,730,742		_	106,920
	1,226,701	1,215,726		83,844	2,526,271
262.0 Unrestricted  Total Net Position				<del></del>	
	5 000 211	5 646 168		X ( X44	10 /30 223
I otal Net Position	5,000,211	5,646,168		83,844	10,730,223

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS FOR THE YEAR ENDED DECEMBER 31, 2013

	Water		Sewer	Solid Waste		Total Proprietary	
		Fund	Fund		Fund		Funds
Operating Revenue							
380 Charges for Goods and Services	\$_	618,684	\$ 538,669	\$	169,032	\$	1,326,385
Operating Expenses							
410 Personal Services		181,963	192,515		-		374,478
420 Other Current Expenses		157,278	115,357		166,636		439,271
457 Depreciation		214,636	213,824		-		428,460
Total Operating Expenses		553,877	521,696		166,636		1,242,209
Operating Income		64,807	16,973		2,396		84,176
Non-Operating Income (Expense)							
361 Earnings (Loss) on Deposits and Investments		3,811	(2,607)		276		1,480
363 Special Assessments		27	6,229		-		6,256
336 Loss on Disposition of Assets		-	(107,556)		-		(107,556)
369.01 Other		-	3,846		-		3,846
470 Interest Expense		(97,476)			<u>-</u>		(97,476)
Total Non-Operating Income (Expense)		(93,638)	(100,088)		276		(193,450)
Income (Loss) before Capital Contribution		(28,831)	(83,115)		2,672		(109,274)
390 Capital Contribution		-	35,482		<u>-</u>		35,482
Change in Net Position		(28,831)	(47,633)		2,672		(73,792)
Net Position - December 31, 2012		5,029,042	5,693,801		81,172		10,804,015
Net Position - December 31, 2013	\$	5,000,211	\$ 5,646,168	\$	83,844	\$	10,730,223

The accompanying notes are an integral part of the financial statements.

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED DECEMBER 31, 2013

		Water Fund		Sewer Fund		Solid Waste Fund	P	Total roprietary Funds
Cash Flows from Operating Activities:								
Receipts from Customers	\$	629,878	\$	522,128	\$	170,072	\$	1,322,078
Payments to Suppliers		(155,732)		(119,230)		(166,608)		(441,570)
Payments to Employees		(185,559)		(196,260)		-		(381,819)
Net Cash Flows Provided by Operating Activities		288,587		206,638		3,464		498,689
Cash Flows from Capital and Related Financing Activities:		(2.2.42)		(102.006)				(10/.220)
Purchase of Capital Assets		(3,243)		(103,086)		-		(106,329)
Proceeds from Sale of Capital Assets		-		2,500		-		2,500
Principal Paid on Capital Debt		(65,295)		-		-		(65,295)
Proceeds from Capital Debt		-		39,328		-		39,328
Interest Paid		(97,567)		1,088		-		(96,479)
Other Receipts		27		10,075		-		10,102
Net Cash Flows Used in Capital and Related				<b></b>				(0.1 < 1.00)
Financing Activities		(166,078)		(50,095)		-		(216,173)
Cash Flows Provided by (Used in) Investing Activities:		2.700		(2.(20)		276		1 446
Interest Received and Unrealized Losses	-	3,790		(2,620)		276		1,446
Increase in Cash and Investments		126,299		153,923		3,740		283,962
Cash and Investments - December 31, 2012		1,205,383		1,043,136		56,229		2,304,748
Cash and Investments - December 31, 2013	\$	1,331,682	\$	1,197,059	\$	59,969	\$	2,588,710
Reconciliation of Operating Income to Net Cash Flows Provided by Operating Activities Operating Income Adjustments to Reconcile Operating Income to Net Cash Flows Provided by Operating Activities:	\$	64,807	\$	16,973	\$	2,396	\$	84,176
Depreciation Expense Change in Assets and Liabilities:		214,636		213,824		-		428,460
Change in Assets and Liabilities.  Change in Receivables		7,644		(16,541)		1,040		(7,857)
9		1,546		(3,873)		28		(2,299)
Change in Accounts Payable		(4,987)		(5,281)		20		(10,268)
Change in Accrued Wages				(3,201)		_		3,550
Change in Customer Deposits		3,550		1,536		-		2,927
Change in Accrued Leave Payable	· ·	1,391	Φ	206,638	\$	3,464	\$	498,689
Net Cash Flows Provided by Operating Activities	\$	288,587	\$	200,030	Φ	3,404	J.	470,007
Noncash Investing, Capital and Financing Activities Capital Assets Contributed Loss on Disposal of Capital Assets Not Affecting	\$	-	\$	35,482	\$	-	\$	35,482
Operating Income		-		107,556		-		107,556

# NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013

#### (1) Summary of Significant Accounting Policies

#### a. Reporting Entity

The reporting entity of the City of Custer (the City), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

#### b. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

#### Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

- 1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- 2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
- 3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2013

#### (1) Summary of Significant Accounting Policies (Continued)

#### b. Basis of Presentation (Continued)

Fund Financial Statements (Continued):

The funds of the City financial reporting entity are described below:

#### Governmental Funds:

General Fund – the General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Special Revenue Funds – special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Third Penny Sales Tax Fund – A fund allowed by SDCL 10-52-8 to be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the maintenance, staffing and operations of such facilities, and the staffing and operation of the Custer Chamber of Commerce. This fund is a major fund.

Business Improvement District (BID) Fund – A fund allowed by SDCL 9-55 to account for a \$2 per night occupancy fee charged to motel guests. Motel operators determine how the proceeds are to be spent, usually on advertising to promote the city. This fund is a major fund.

Debt Service Funds – debt service funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related cost. The City has the following debt service fund:

TIF Debt Service Fund – TIF funds are Tax Increment Financing Districts allowed by SDCL 11-9-24 to account for the proceeds of incremental property taxes, restricted for the payment of principal and interest on debt issued to finance a public improvement. Separate accounts are maintained for TIF District #1, #2, #4, and #5 revenues and expenditures. This fund is a major fund.

Permanent Funds – permanent funds are used to account for assets that are permanently set aside and from which only the income from its investments can be used for its stated legal purpose. The City has the following permanent fund:

Cemetery Perpetual Care Fund – A fund allowed by SDCL 9-31-18 to account for payments received for perpetual care of cemeteries. The payments are permanently set aside and only the income from the investments can be used for the care and maintenance of the cemetery. The Cemetery Perpetual Care Fund is a major fund.

#### Proprietary Funds:

Enterprise Funds – Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City has the following enterprise funds:

# NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2013

# (1) Summary of Significant Accounting Policies (Continued)

## b. Basis of Presentation (Concluded)

Fund Financial Statements (Concluded):

Water Fund – A fund established by SDCL 9-47-1 to account for the operation of the City of Custer's waterworks systems and related facilities and is financed primarily by user charges. The water fund is a major fund.

Sewer Fund – A fund established by SDCL 9-48-2 to account for the operation of the City of Custer's sanitary sewer system and related facilities and is financed primarily by user charges. The sewer fund is a major fund.

Solid Waste Fund - A fund established by SDCL 9-32-11 and 34A-6 to account for the City of Custer's collection and disposal of solid waste and is financed primarily by user charges. The solid waste collection fund is a major fund.

#### Fiduciary Funds:

Fiduciary fund types are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. Fiduciary funds are never considered major funds. The City has no fiduciary funds.

#### c. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe how transactions are recorded within the various financial statements. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

#### Measurement Focus:

#### Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

#### Fund Financial Statements:

In the fund financial statements, the current financial resources measurement focus and the modified-accrual basis of accounting are applied to governmental fund types, while the economic resources measurement focus and the accrual basis of accounting are applied to the proprietary fund types.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2013

## (1) Summary of Significant Accounting Policies (Continued)

## c. Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting:

#### Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

#### Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2013, are property and sales tax receivable and a grant receivable.

#### d. Cash and Cash Equivalents

The City pools the cash and investment resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of cash and investment resources on hand. Accordingly, each proprietary fund's equity in the cash management pool, including restricted investments, is considered to be cash and cash equivalents for the purposes of the Statement of Cash Flows.

#### e. Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

#### Government-wide Financial Statements:

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the donation date. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2013

## (1) Summary of Significant Accounting Policies (Continued)

## e. Capital Assets (Continued)

## Government-wide Financial Statements (Continued):

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004, are recorded at cost, and classified as Improvements Other Than Buildings.

The total December 31, 2013 balance of governmental activities capital assets includes approximately two percent for which the costs were determined by estimates of the original costs. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

Construction-period interest for capital assets used in governmental activities is not capitalized in accordance with USGAAP; however, construction period interest for capital assets used in business-type activities/proprietary fund's operations, is capitalized in accordance with USGAAP. There was no capitalized interest for the year ended December 31, 2013.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. Accumulated depreciation is reported on the government-wide Statement of Net Position and on each proprietary fund's Statement of Net Position.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization	Depreciation	Estimated
	Threshold	Method	Useful Life
Land Improvements Other Than Buildings Buildings Machinery and Equipment	\$ -0-	N/A	N/A
	\$ 5,000	Straight-line	3-100 yrs.
	\$ 5,000	Straight-line	33-50 yrs.
	\$ 5,000	Straight-line	5-25 yrs.

Land is an inexhaustible capital asset and is not depreciated.

#### Fund Financial Statements:

In the governmental fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

#### f. Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of TIF obligations, water and sewer revenue bonds, and compensated absences.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2013

# (1) Summary of Significant Accounting Policies (Continued)

## f. Long-Term Liabilities (Continued)

In the governmental fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis for both the fund statements and the government-wide statements.

#### g. Program Revenues

Program revenues are derived directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

- 1. Charges for services arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
- 2. Program-specific operating grants and contributions arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for use in a particular program. The City had no operating grants and contributions in 2013.
- 3. Program-specific capital grants and contributions arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for the acquisition of capital assets for use in a particular program.

# h. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

#### i. Equity Classifications

#### Government-wide Financial Statements:

Equity is classified as net position and is displayed in three components:

- 1. Net Investment in Capital Assets consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- 2. Restricted Net Position—consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) laws through constitutional provisions or enabling legislation.
- 3. Unrestricted Net Position all other net position that do not meet the definition of restricted or net investment in capital assets.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2013

## (1) Summary of Significant Accounting Policies (Concluded)

## i. Equity Classifications (Continued)

#### Fund Financial Statements:

The City classifies governmental fund balance as follows:

Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

<u>Restricted</u> – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. The City has one committed fund balance for the year ended December 31, 2013. The General Fund created a Capital Reserve Replacement by the City Council passing Ordinance #722. The commitment was established to set funds aside for future capital asset replacements exceeding a cost of \$30,000, up to a maximum commitment of \$250,000. The City Council is the highest decision-making authority and would have to pass an ordinance to remove the commitment.

<u>Assigned</u> – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the City Council, Mayor, or Finance Officer. The Subsequent Year's Budget assignment was established by the City Council when it passed the 2014 Appropriations Ordinance for the City's 2014 budget.

<u>Unassigned</u> – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

With regard to the City's governmental funds, the City uses restricted amounts first when both restricted and unrestricted fund balances are available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar-for-dollar spending. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made. The City does not have a formal minimum fund balance policy.

Proprietary fund equity is classified the same as in the government-wide financial statements. With regard to the City's proprietary funds, it is the City's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

#### j. Compensated Absences

Eligible employees earn sick leave after six years of employment, and will be paid a maximum of 240 hours upon termination. Eligible employees can earn vacation leave based on years of service, and will be paid upon termination, up to a maximum of 240 hours.

#### k. Accounts Receivable

Included in utility accounts receivable at December 31, 2013 are unbilled accounts receivable totaling approximately \$34,000, \$36,000, and \$14,000 for the water, wastewater, and solid waste funds, respectively.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2013

#### (2) Deposits and Investments

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA", or a qualified public depository may furnish a corporate surety bond of a corporation duly authorized to do business in South Dakota.

Investments – In General, SDCL 4-5-6 permits City funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) and meeting the requirements of § 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b).

Also, SDCL 4-5-9 requires investments to be in the physical custody of the City or deposited with any bank or trust account designated by the City as its fiscal agent.

As of December 31, 2013, the City had the following investments:

Investment	Credit Rating	Maturity	Fair Value		
Money Market	Unrated	Unrated N/A		198,709	
U.S. Government Securities					
US Tips - 0.625% - 2%	AAA	1-3 years		460,308	
US Treasury Strips - 0%	AAA	AAA 3-6 years		577,379	
External Investment Pools:					
SDFIT ·	Unrated	N/A		177,140	
Total Investments			\$	1,413,536	

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, school districts, and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2013

## (2) Deposits and Investments (Concluded)

#### Interest Rate Risk:

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the portfolio to meet the cash requirements of ongoing operations, thereby mitigating the need to liquidate securities at a loss prior to maturity.

#### Credit Risk:

State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices.

#### Custodial Credit Risk:

The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City has a policy to follow state law depository requirements. As of December 31, 2013, none of the City's deposits were exposed to custodial credit risk.

#### Concentration of Credit Risk

The City does not allow more than 75 percent be invested in any one issuer. Additionally, investment maturities will be staggered in such a manner that all investments will not come due at the same time. Unless matched with specific cash flow, the City will not directly invest in securities maturing more than eight years from the date of purchase. The City only has cash, certificates of deposit, money market funds, and government securities.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment, except for the Cemetery Perpetual Care Fund income, which is credited to the General Fund as required by SDCL 9-32-18.

#### (3) Restricted Investments

Assets restricted to use for a specific purpose through segregation of balances in separate accounts are as follows:

**Amount** 

Purnose

\$106,920

Water Fund Debt Service, by debt covenants

#### (4) Deferred Inflows of Resources

Government Accounting Standards Board (GASB) No. 65, *Items Previously Reported as Assets and Liabilities*, which was implemented in the current year, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that apply to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period. Deferred inflows of resources consist primarily of property taxes and a federal grant.

#### (5) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments before April 30 and October 31 of the following year. The county bills and collects the taxes and remits them to the City. The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2013

# (6) Changes in Capital Assets

A summary of changes in capital assets for the year ending December 31, 2013 is as follows:

	Balance				Transfers/			Balance
Governmental Activities:	1/1/2013 Additions				Deletions			12/31/2013
Capital Assets, not being Depreciated:								
Land	\$	1,070,706	\$	-	\$	-	\$	1,070,706
Construction Work in Progress		126,227		354,930		(33,412)		447,745
Total Capital Assets, not being Depreciated		1,196,933		354,930		(33,412)		1,518,451
Capital Assets, being Depreciated:								
Buildings		1,988,125		-		-		1,988,125
Improvements Other Than Buildings		7,189,435		142,164		600		7,332,199
Machinery and Equipment		1,338,713		11,900		-		1,350,613
Total Capital Assets, being Depreciated		10,516,273		154,064		600		10,670,937
Less Accumulated Depreciation for:								
Buildings		441,749		36,938		-		478,687
Improvements Other Than Buildings		1,311,631		362,129		-		1,673,760
Machinery and Equipment		823,935		72,371		-		896,306
Total Accumulated Depreciation		2,577,315		471,438				3,048,753
Total Governmental Activities Capital								
Assets, being Depreciated, Net		7,938,958		(317,374)		600		7,622,184
Total Governmental Capital Assets, Net	\$	9,135,891	\$	37,556	\$	(32,812)	\$	9,140,635
Depreciation expense was charged to functions as f	ollo	ws:						
Public Works							\$	333,392
Culture and Recreation								82,979
General Government								55,067
Total Depreciation Expense - Governmental							\$	471,438

# NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2013

#### (6) Changes in Capital Assets (Continued)

		Balance 1/1/2013	,	Additions	ransfers/ Deletions		Balance 12/31/2013
Business-Type Activities:							
Capital Assets, not being Depreciated:							
Land	\$	568,035	\$	-	\$ -	\$	568,035
Construction Work in Progress	•	418,328	_	51,979	(404,003)		66,304
Total Capital Assets, not being Depreciated		986,363		51,979	 (404,003)		634,339
Total Capital Hoseis, not seem a 2		<del></del>			 · <del>1</del>		
Capital Assets, being Depreciated:							
Buildings		1,473,024		-	-		1,473,024
Improvements Other Than Buildings	1	3,199,631		33,624	(139,182)		13,094,073
Machinery and Equipment		1,041,259		56,207	 330,056		1,427,522
Total Capital Assets, being Depreciated		5,713,914		89,831	190,874		15,994,619
Less Accumulated Depreciation for:							
Buildings		769,815		30,269	-		800,084
Improvements Other Than Buildings		4,183,873		301,645	(35,798)		4,449,720
Machinery and Equipment		814,995		96,546	(67,276)		844,265
Total Accumulated Depreciation		5,768,683		428,460	 (103,074)		6,094,069
Total Business-Type Activities Capital							
Assets, being Depreciated, Net		9,945,231		(338,629)	 293,948		9,900,550
Total Business-Type Capital Assets, Net	\$ 1	10,931,594	\$	(286,650)	\$ (110,055)	\$	10,534,889
Depreciation expense was charged to functions as	follo	ws:					
0						\$	213,824
Sewer						Ψ	214,636
Water Total Depresiation Expense Rusiness Type					 	\$	428,460
Total Depreciation Expense - Business-Type					 	-	.20,.00

As of December 31, 2013, there are approximately \$1,160,000 of commitments associated with construction projects in progress. Completion of such projects will be funded through proceeds from revenue bonds and cash reserves.

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2013

#### (7) Long-Term Debt

The following is a summary of the long-term debt activity for the year ending December 31, 2013:

	Balance		Earned/	Used/		Balance		Due Withir	
	1/1/2013	В	orrowings	Repayments		12/31/2013		С	ne Year
Primary Government:									
Governmental Activities:									
TIF #1 - Boothill	\$ 665,465	\$	-	\$	-	\$	665,465	\$	-
Accrued Interest - TIF #1	77,783		35,661		55,338		58,106		50,105
TIF #2 - Stonehill	1,569,901		-		-		1,569,901		-
Accrued Interest - TIF #2	394,114		138,194		40,947		491,361		42,674
TIF #4 - Downtown (2011 Bonds)	1,136,742		-		51,577		1,085,165		59,943
TIF #5 - Pamida	339,547		-		23,060		316,487		26,531
Compensated Absences	48,454		40,985		34,053		55,386		55,386
Total Governmental Activities	4,232,006		214,840		204,975		4,241,871		234,639
Business-Type Activities:									
2003 SRF Water Revenue Bond	514,005		-		38,296		475,709		39,659
2007 USDA Water Revenue Bond	1,949,819		-		26,999		1,922,820		27,858
2012 SRF Sewer Revenue Bond	-		39,328		-		39,328		-
Compensated Absences	56,809		40,825		37,898		59,736		59,736
	2,520,633		80,153		103,193		2,497,593		127,253
Total Primary Government	\$ 6,752,639	\$	294,993	\$	308,168	\$	6,739,464	\$	361,892

#### Tax Increment Financing Obligations

Tax increment financing is a method of financing improvements and development in an area which has been determined to be blighted according to the criteria set forth in SDCL 11-9. In some instances, the City pledges future tax revenues generated by the tax increment district to acquire public improvements within the established Tax Increment District which were constructed by a private developer.

It is a specific condition of the developer's agreement and a condition of the City's obligation that all sums payable shall be limited to the proceeds of the positive tax increment. It is also specifically agreed that the City has made no representation that the proceeds from such funds shall be sufficient to retire the indebtedness incurred by the developer to construct the public improvements.

During the year ended December 31, 2013, property tax revenues were \$55,338, \$40,947, \$108,092, and \$45,486 for TIFs #1, #2, #4, and #5, respectively. Interest expenditures, excluding corresponding accruals, related to TIF obligations totaled \$175,225 for the year ended December 31, 2013.

#### Business-type Activities

The City has pledged future revenues of the Water Fund for the retirement of debt issues associated with those funds through the maturity dates listed below. All debt secured by pledged revenues funded capital projects and improvements. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged. Below is a comparison by fund of principal and interest payments and total pledged revenue for the current year.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2013

#### (7) Long-Term Debt (Continued)

Long-term debt at December 31, 2013, is comprised of the following:

Revenue Bonds Series 2003 SRF Water Revenue Bonds for \$800,000, matures in February 2024, interest at 3.00 percent, due in monthly installments of \$4,640. Financed through the Water Fund.	\$ 475,709
2007 USDA Water Loan for \$2,091,423, matures in January 2047, interest at 4.13 percent, due in monthly installments of \$8,910. Financed through the Water Fund.	1,922,820
Series 2012 SRF Sewer Revenue Bonds with a maximum borrowing of \$1,633,000, interest at 3.00 percent. As of December 31, 2013, advances totaled \$39,328. Quarterly principal and interest payments to be made after full advancement of funds. The terms of the repayment will be determined based on actual drawdowns.  Total Revenue Bonds	39,328 2,437,857
Total Revenue Bonds	2, 107, 301
Tax Increment Financing Obligations TIF #1, including interest at 6.00 percent, due in varying semi-annual installments of incremental property taxes collected through 2018. Partial interest payments only were paid in 2013. Financed through the TIF Debt Service Fund.	665,465
TIF #2, including interest at 9.00 percent, due in varying installments within 30 days of property tax collection from the county through 2023. Partial interest payments only were paid in 2013. Financed through the TIF Debt Service Fund.	1,569,901
TIF #4, Series 2011 including variable interest at 5.00 percent at December 31, 2013, (not less than 4.50 percent, and not to exceed 7.00 percent), due in semi-annual installments of \$59,467 through 2027. Financed through the TIF Debt Service Fund.	1,085,165
TIF #5, including interest at 7.00 percent, due in varying semi-annual installments of incremental	
property taxes collected through 2021. Financed through the TIF Debt Service Fund.	316,487
Total Tax Increment Financing Obligations	3,637,018
Compensated Absences	
General Fund	55,386
Water Fund	29,370
Sewer Fund	30,366
Total Compensated Absences	115,122
Accrued Interest (TIFs #1 and #2)	549,467
Total Long-Term Debt	\$ 6,739,464

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2013

#### (7) Long-Term Debt (Concluded)

The annual requirements to amortize long-term debt outstanding as of December 31, 2013, except for compensated absences and accrued interest on TIFs #1 and #2, are as follows:

					(	a)					
		Revenu	e Bond	ls	TIF Ob	F Obligations					al
	Inte	rest	Prir	ncipal	Interest		Principal		Interest		Principal
2014	\$ 9	6,268	\$	67,517	\$ 168,874	\$	86,474	\$	265,142	\$	153,991
2015	9	2,505		70,100	165,052		92,605		257,557		162,705
2016	8	39,822		72,783	159,825		98,998		249,647		171,781
2017	8	37,036		75,569	154,160		104,663		241,196		180,232
2018	8	34,143		78,462	153,580		776,072		237,723		854,534
2019-2023	37	3,252	4	79,100	1,842,523		2,186,487		2,215,775		2,665,587
2024-2028	30	7,203	2	38,077	29,974		291,719		337,177		529,796
2029-2033	25	3,415	2	81,228	-		-		253,415		281,228
2034-2038	18	39,033	3	45,609	-		-		189,033		345,609
2039-2043	10	9,912	4	24,730	-		_		109,912		424,730
2044-2048	12	23,062	3	04,682	-		<b>-</b>		123,062		304,682
Total	\$ 1,80	5,651	\$ 2,4	37,857	\$ 2,673,988	\$	3,637,018	\$	4,479,639	\$	6,074,875

(a) TIF Obligation maturities are based on projected future property tax increments. Actual repayments will vary dependent on property tax increments received.

The City has bond reserves of \$106,920 at December 31, 2013, in accordance with debt covenants.

#### (8) Retirement Plan -- South Dakota Retirement System

All full-time employees participate in the South Dakota Retirement System (SDRS), a cost-sharing multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute six percent of their salary to the plan, while public safety and judicial employees contribute eight and nine percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2013, 2012, and 2011 were \$37,436, \$35,421, and \$36,418, respectively, equal to the required contributions each year.

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2013

#### (9) Risk Management

The City is exposed to various risks of loss related to torts; theft; damage or destruction of assets; errors or omissions; injuries to employees; and natural disasters. During the year ending December 31, 2013 the City managed its risks as follows:

#### Employee Health Insurance:

The City purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

#### Liability Insurance:

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium to provide general liability, automobile liability, and officials' liability.

The agreement with the SDPAA provides that the above coverages will be provided to a \$2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

End of City's First Full Year	50%
End of City's Second Full Year	60%
End of City's Third Full Year	70%
End of City's Fourth Full Year	80%
End of City's Fifth Full Year	90%
End of City's Sixth Full Year and Thereafter	100%

As of December 31, 2013 the City has a vested balance in the cumulative reserve fund of \$13,654.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

#### Worker's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund (the Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees, under a self-funded program, and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability of \$2,000,000 per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

### NOTES TO FINANCIAL STATEMENTS (CONCLUDED) DECEMBER 31, 2013

#### (9) Risk Management (Continued)

#### **Unemployment Benefits:**

The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

#### (10) Individual Fund Interfund Receivable and Payable Balances

Interfund receivable and payable balances at December 31, 2013, are as follows:

	I	Interfund			
Fund	Re	ceivables	Payables		
General Fund	\$	30,000	\$ -		
Promotion Fund		-	30,000		
	\$	30,000	\$ 30,000		

The General Fund loaned monies to the Promotion Fund for operations. The balance will be paid back within the next year.

#### (11) Emerging Accounting Standards

In June 2012, GASB issued Statement Nos. 67 and 68. Statement No. 67, Financial Reporting for Pension Plans, and Statement No. 68, Accounting and Reporting for Pensions, replace the requirements of Statement No. 50, Pension Disclosures and will require additional note disclosures for the City's cost-sharing multiple employer, defined benefit pension plan. These statements relate to accounting and financial reporting issues and how pension costs and obligations are measured and reported in audited financial statements. The standards describe the change from the funding-based approach to an accounting-based approach in order to improve pension information and increase the transparency, consistency, and comparability of pension information across governments.

The City will recognize its share of a collective net pension liability, as well as pension expense and deferred outflows or inflows of resources for its proportionate share. Within the governmental fund financial statements, pension expenditures should be recognized equal to the total of (1) amounts paid by the City to a pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. Note disclosures will include descriptive information about the plan and its terms, contribution rates and how they are determined, and amounts attributed to employee service and forfeitures in the current period.

The guidance related to the new standards is effective for the City's year ending December 31, 2014 for GASB 67 and December 31, 2015 for GASB 68.



#### BUDGETARY COMPARISON SCHEDULE GENERAL FUND - BUDGETARY BASIS FOR THE YEAR ENDED DECEMBER 31, 2013

FURIT	TE TEAR ENDED DECEMBER 31, 2013			Actual -	
		Original	Final	Budgetary	
		Budget	Budget	Basis	Variance
Revenue	e		 Q		
	Taxes:				
311	General Property Taxes	\$ 792,000	\$ 792,000	\$ 803,045	\$ 11,045
313	General Sales and Use Taxes	1,157,000	1,157,000	1,347,147	190,147
315	Amusement Taxes	500	500	636	136
319	Penalties and Interest on Delinquent Taxes	3,000	3,000	4,599	1,599
320	Licenses and Permits	37,600	37,600	51,103	13,503
	Intergovernmental Revenue:				
	State Shared Revenue:				
335	Bank Franchise Tax	500	500	2,698	2,198
335	Motor Vehicle Commercial Prorate	5,000	5,000	-	(5,000)
335	Liquor Tax Reversion	11,500	11,500	13,013	1,513
335	Motor Vehicle Licenses (5%)	20,000	20,000	25,759	5,759
335.08	Local Government Highway and Bridge Fund	22,000	22,000	29,658	7,658
	County Shared Revenue:				
338	County HBR Tax	21,500	21,500	31,002	9,502
	Charges for Goods and Services:				
341	General Government	5,400	5,400	7,428	2,028
346	Culture and Recreation	15,000	15,000	13,892	(1,108)
348	Cemeteries	3,500	3,500	4,200	700
350	Fines and Forfeits	700	700	2,964	2,264
352	Animal Control Fines	2,700	2,700	-	(2,700)
	Miscellaneous Revenue:				
361	Earnings on Deposits and Investments	20,000	20,000	(2,134)	(22,134)
362	Rentals	12,700	12,700	12,214	(486)
368	Liquor Operating Agreement Income	165,000	165,000	170,270	5,270
369	Other	19,500	 19,500	13,560	(5,940)
Total R	evenue	2,315,100	2,315,100	2,531,054	215,954

BUDGETARY COMPARISON SCHEDULE (CONTINUED)

GENERAL FUND - BUDGETARY BASIS FOR THE YEAR ENDED DECEMBER 31, 2013

CITY OF CUSTER

FOR THE TEAR ENDED DECEMBER 31, 2013	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Expenditures				
General Government:				
411 Legislative	129,700	129,700	77,526	52,174
413 Elections	1,175	1,175	31	1,144
414 Financial Administration	127,890	137,890	127,755	10,135
419 Other	374,986	329,986	220,416	109,570
Public Safety:				
421 Police	357,000	357,000	349,651	7,349
429 Other Protection	_	45,000	42,660	2,340
Public Works:				
431 Highways and Streets	843,274	881,774	739,505	142,269
437 Cemeteries	26,350	27,850	26,436	1,414
Health and Welfare:				
444 Humane Society	8,880	8,880	7,913	967
447 Hospitals, Nursing Homes, and Rest Homes	400,000	400,000	400,000	-
Culture and Recreation:				
451 Custer Cruisin'	15,000	15,000	11,928	3,072
451 Swimming	44,000	44,000	46,899	(2,899)
452 Parks	150,870	150,870	121,759	29,111
Conservation and Development:				
465 Economic Development and Assistance	92,500	92,500	92,500	-
Total Expenditures	2,571,625	2,621,625	2,264,979	356,646
Net Change in Fund Balance	(256,525)	(306,525)	266,075	572,600
Fund Balance - December 31, 2012	1,904,634	1,904,634	1,904,634	-
Fund Balance - December 31, 2013	\$ 1,648,109	\$ 1,598,109	\$ 2,170,709	\$ 572,600

The acompanying notes to required supplementary information are an integral part of this statement.

#### BUDGETARY COMPARISON SCHEDULE THIRD PENNY (PROMOTION) FUND - BUDGETARY BASIS FOR THE YEAR ENDED DECEMBER 31, 2013

FOR THE TEAR ENDED DECEMBER 31, 2013	•••	Original Budget	Final Budget	Actual - Budgetary Basis		 /ariance
Revenue						
Taxes:						
313 General Sales and Use Taxes	\$	191,000	\$ 215,000	\$	202,700	\$ (12,300)
Intergovernmental Revenue:						
331 Federal Grants		80,000	80,000		-	(80,000)
Miscellaneous Revenue:						
361 Investment Earnings		500	500		202	 (298)
Total Revenue		271,500	295,500		202,902	(92,598)
					-	
Expenditures						
Conservation and Development:						
465 Economic Development and Assistance		271,500	 310,500		282,524	 27,976
Net Change in Fund Balance			 (15,000)		(79,622)	 (64,622)
Fund Balance - December 31, 2012		45,522	45,522		45,522	-
Fund Balance - December 31, 2013	\$	45,522	\$ 30,522	\$	(34,100)	\$ (64,622)

The acompanying notes to required supplementary information are an integral part of this statement.

#### BUDGETARY COMPARISON SCHEDULE BID DISTRICT FUND - BUDGETARY BASIS FOR THE YEAR ENDED DECEMBER 31, 2013

		0-1-11	Y22	Actual -		
	Original Budget		Final Budget	 Budgetary Basis	V	ariance
Revenue						
Taxes:						
313 General Sales and Use Taxes	\$	148,000	\$ 148,000	\$ 141,344	\$	(6,656)
Expenditures  Conservation and Development:						
465 Economic Development and Assistance		148,000	 148,000	 132,257		15,743
Net Change in Fund Balance		-	 	9,087		9,087
Fund Balance - December 31, 2012		79,001	79,001	79,001		-
Fund Balance - December 31, 2013	\$	79,001	\$ 79,001	\$ 88,088	\$	9,087

The acompanying notes to required supplementary information are an integral part of this statement.

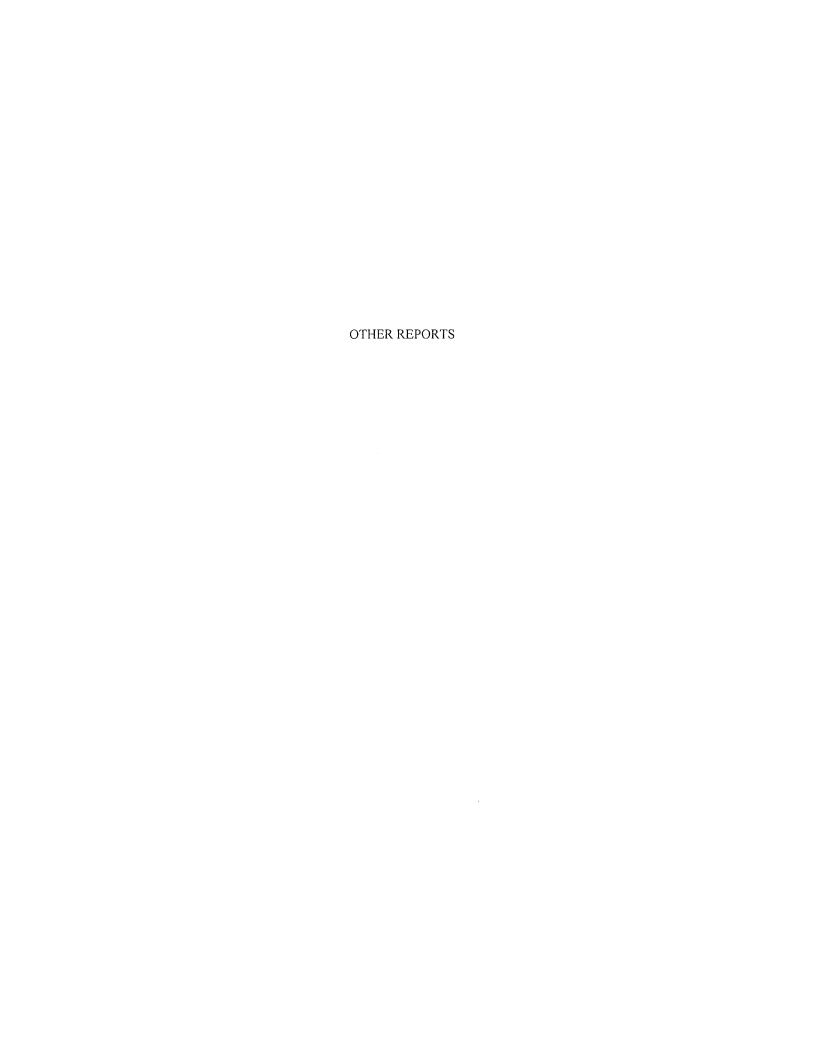
### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2013

#### (1) Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
- 2. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in item number four.
- 3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
- 4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
- 5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.
- 6. The City did not encumber any amounts at December 31, 2013.
- 7. Formal budgetary integration is employed as a management control device during the year for the general fund and major special revenue funds.
- 8. Budgets for the general fund and major special revenue funds are adopted on a basis consistent with the modified-cash basis of accounting, except for the following:

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new vehicle would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances; however, in the Budgetary RSI Schedule, the purchase of that vehicle would be reported as an expenditure of the Public Safety function of government, along with all other current Public Safety related expenditures.



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# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Council
City of Custer
Custer, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the CITY OF CUSTER (the City) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 5, 2014.

#### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Auditor's Comments and Closing Conference, we identified a certain deficiency in internal control that we consider to be a material weakness and one deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Auditor's Comments and Closing Conference as Finding #2013-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Auditor's Comments and Closing Conference as Finding #2013-002 to be a significant deficiency.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Auditor's Comments and Closing Conference as Finding #2013-002.

City's Response to Findings

The City's response to the findings identified in our audit are described in the accompanying Auditor's Comments and Closing Conference. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion of the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

KETEL THORSTENSON, LLP Certified Public Accountants

May 5, 2014

## AUDITOR'S COMMENTS AND CLOSING CONFERENCE DECEMBER 31, 2013

#### A. Status of Prior Audit Findings and Recommendations

Finding 12-1 Financial Statement Preparation – This finding will be repeated in the current year as Finding 2013-001.

Finding 12-2 Budgetary Overdraft – This finding will be repeated in the current year as Finding 2013-002.

#### B. Current Year Audit Findings and Recommendations

#### MATERIAL WEAKNESS

#### 2013-001 FINDING: Financial Statement Preparation

Condition and Cause: We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Auditing standards require auditors to communicate this situation to the City Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness and presentation of those statements. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for municipalities of your size.

Criteria and Effect: It is our responsibility to inform the City Council that this deficiency could result in a material misstatement to the financial statements that would not have been prevented or detected by the City's management.

Recommendation: As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the City's financial statements. We are satisfied that the appropriate steps have been taken to provide the City with the completed financial statements. It is the responsibility of management and the City Council to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response/Corrective Action Plan: The Finance Officer has reviewed the draft and has addressed any questions with the Auditor.

### AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONTINUED) DECEMBER 31, 2013

#### B. Current Year Audit Findings and Recommendations (Continued)

#### SIGNIFICANT DEFICIENCY

2013-002 FINDING: Budgetary Overdraft

Condition and Cause: The City has a budgetary overdraft in violation of South Dakota Codified Law 9-21-9, in the following department:

FundDepartmentOverdraftGeneral FundCulture and Recreation - Swimming\$ 2,899

Criteria and Effect: The City did not follow South Dakota codified law.

Recommendation: In the future, the City should complete supplemental appropriations for unanticipated and unbudgeted expenditures.

Response/Corrective Action Plan: In the future the City will try not to over-look year-end expenditures when preparing budget supplements to ensure they adequately cover overages. The Finance Officer is responsible for this finding.